CHAPTER 12- REVENUES AND OTHER FINANCING SOURCES

CHAPTER 12- REVENUES AND OTHER FINANCING SOURCES

12.1 INTRODUCTION

This chapter presents standards to account for inflows of resources from revenue and other financing sources. It provides standards for classifying, recognizing, and measuring resource inflows. These financial (proprietary) accounting standards differ from those used for budgetary accounting only to the extent essential to meet the objectives of federal financial reporting.

12.2 CLASSIFICATION, RECOGNITION, AND MEASUREMENT

Revenue is an inflow of resources that the Department demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a USDA entity provides goods and services to the public or to another federal entity for a price. Another term for "exchange revenue" is "earned revenue." Nonexchange revenues arise primarily from exercise of the Government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties) but also include donations. The term "revenue" does not encompass all financing sources of USDA entities, such as most of the appropriations they receive. These other sources of financing do, however, provide resource inflows, so this chapter includes accounting standards for them.

12.21 Exchange Revenue

These accounting standards recognize exchange revenue at the time that a USDA entity provides goods or services to the public or to another Government entity. The revenue is measured at the price likely to be received. Thus, with some differences that are explained in this chapter, the accounting for earned revenue is comparable to the private sector's accrual accounting for earned revenue. Exchange revenue includes most user charges other than taxes. Such user charges include regulatory user charges, in which the exchange is not wholly voluntary but the revenue is generally, but not always, related to the cost of providing service to identifiable groups. One example is the revenue derived from the Animal and Plant Health Inspection Service’s inspection fees. Exchange transactions also include those intragovernmental transactions where the price serves as a full or partial reimbursement for the costs incurred.

Distinguishing exchange revenue from nonexchange revenue and other financing sources enables the entity to report the net cost of operations of its programs (and the cost of the entity to the taxpayer) and provides the accounting foundation to report unit cost of output measures for performance evaluations. Requiring that exchange revenue be matched with the cost of outputs of goods and services sold to the public enables the entity to report the cost to the taxpayer of not charging the full cost of those goods and services.

12.22
Nonexchange Revenue

Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, and other inflows of resources arising from the Government's power to demand payments, as well as voluntary donations. Nonexchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable (i.e., more likely than not) and the amount is measurable (i.e., reasonably estimable). "More likely than not" means more than a 50 percent chance. "Not probable" means the converse (i.e., less than a 50 percent chance.)

12.23
Disclosures and Supplementary Information

The different types of revenue, and the complexity of accounting for revenue and other financing sources, increase the importance of certain disclosures and other information. Certain disclosures are required about exchange transactions where the full cost of goods and services sold is not recovered. Limited disclosure concerning accountability for dedicated collections is required for reporting entities responsible for administering such funds. Supplementary information is required from those entities and the entities that make the collections in cases where trust funds may be over- or under-funded in terms of applicable law. Disclosures are required about the use of borrowing authority and the status of budgetary resources that may affect future spending by the entity.

12.24
General Standards

The essential differences among exchange revenues, nonexchange revenues, and other financing sources affect the way they are recognized and measured under the accrual method of accounting. Properly classifying these inflows according to their nature, therefore, provides the basis for applying different accrual accounting principles. In addition, proper classification is essential to constructing financial statements that meet federal financial reporting objectives.

12.24.1
Classification of Revenues

To help meet those objectives, the “exchange” and “nonexchange” classifications were developed to determine what specific kinds of revenue should be deducted from the cost of providing goods and services by the reporting entities. Only revenue classified as exchange revenue should be matched with costs. Nonexchange revenue and other financing sources are not matched with costs because they are not earned in the operations process. Because they are inflows that finance operations, nonexchange revenues and other financing sources should be classified in accordance with other rules and should be recognized only in determining the overall financial results of operations for the period. This differs from the focus used in the private sector, where the focus is on net income for business organizations, and on changes in net assets for not-for-profit organizations. It is also a different focus from that used previously in reporting on U.S. Government operations. Under the old federal accounting standards, the focus was on matching all of an entity's financing with incurred expenses to report "net results of operations" which generally was not useful in evaluating performance. The new focus is on costs --both gross and net--which are useful in evaluating performance on many levels.

12.24.2
Exchange Transactions

The concept of matching costs and revenue has little relevance in government except where there is an exchange transaction. An exchange transaction occurs when one party sacrifices value and receives a valuable good or service in return. The operations of an entity engaged in exchange transactions produce the revenue earned as well as the associated cost incurred. Therefore, financial accounting should relate the revenue to the cost for these transactions. The net effect--the gross cost minus the revenue, or the net cost--generally determines the extent to which taxpayers bear the cost of the operations. The only major exception is for intragovernmental sales of goods and services. The extent to which taxpayers bear the costs of these goods and services depends on whether the goods and services are sold to entities that in turn sell goods and services to the public, or to entities that are financed by taxes. The net cost of operations may also be financed by other nonexchange revenue such as fines, forfeitures, and donations.

Information about the net cost of exchange transactions serves other purposes as well. Net cost gives one indication of the extent to which people are willing to make voluntary payments to acquire goods or services of the kinds that are sold. It thus can give an indication of the extent to which people judge the products to have value. Net cost also can be used in evaluating an entity's pricing policy.

Most importantly of all, both net cost and gross cost can be compared with outputs and outcomes in assessing the effectiveness and efficiency with which resources are used to achieve results. Such comparisons can be used by agency management, the President, and the Congress in making decisions about allocating resources. These standards, together with those contained in Chapter 5, “Cost Information,” provide information essential to effective implementation of the Government Management Reform Act and the Government Performance and Results Act, which require agencies to devise and report cost-based performance measures such as unit cost. These standards, when applied in the context of applicable entity and display concepts, will make federal financial reporting more meaningful to those concerned with performance measurement.

12.24.3 Nonexchange Transactions

Nonexchange revenue transactions do not require a USDA entity to give value directly in exchange for the inflow of resources. The Department does not "earn" the nonexchange revenue. The cost that nonexchange revenue finances falls on those who pay the taxes and make the other nonexchange payments to the Department. The different character of nonexchange revenues requires that they be distinguished from exchange revenues. They should, therefore, be shown in a way that does not obscure the entity's net cost of operations.

12.24.4
Direct Loans and Loan Guarantees

Except as otherwise stated, the recognition and measurement of revenue and credit losses due to direct loans and loan guarantees is governed by standards contained in Chapter 6, “Loan Programs and Debt Collection.”

12.25
Materiality

The standards presented in this chapter should be applied only to items that are material. "Materiality" has not been strictly defined in the accounting community; rather, it has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them. The determination of whether an item is immaterial requires the exercise of considerable judgment, based on consideration of specific facts and circumstances.

12.25.1
Determination Of Materiality

The determination of whether an item is material depends on the degree to which omitting or misstating information about this item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement. This concept includes both qualitative and quantitative considerations. An item that is not considered material from a quantitative standpoint may be considered qualitatively material if it would influence or change the judgment of the financial statement user.

12.25.2
Consideration of Needs Of Users of Financial Reports

In applying the concept of materiality, the needs of the users of the annual financial report should also be considered. In the federal government environment, such needs generally differ from those of users of commercial entity financial statements. For example, federal government financial statement user needs extend to having the ability to assess the efficiency and the effectiveness of the entity's programs. Further, compliance with budget and other finance-related laws, rules, and regulations is also a significant consideration of such users. This is expressed well in the "Government Auditing Standards" (the "Yellow Book"):

> "In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private-sector because of the public accountability of the entity, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions." (Ch. 3, par. 33.)

While this standard applies to an auditor's evaluation of materiality rather than a preparer's, it does provide insight into the factors affecting materiality in the federal government. Therefore, the accounting and reporting provisions of these standards should be applied to all items that would influence or change the users' judgments of the entity's efficiency and the effectiveness and its compliance with laws and regulations in a material manner. Conversely, the provisions of this chapter need not be applied to immaterial items.

12.3
EFFECTIVE DATE

The provisions of this chapter are effective only for reporting periods that begin after September 30, 1997.

12.4
WHERE TO DIRECT QUESTIONS AND COMMENTS

Please direct questions or comments about this chapter to the Financial Information Systems VIsion and Strategy (FISVIS) Standards Team at 703-305-1548.

12.5
SPECIFIC ACCOUNTING

These standards determine how a USDA reporting entity should account for inflows of resources from revenue and other financing sources in its general purpose financial

STANDARDS

reports. Revenue is an inflow of resources that the USDA demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a USDA entity provides goods and services to the public or to another Government entity for a price. Another term for "exchange revenue" is "earned revenue." Nonexchange revenues arise primarily from exercise of the Government's power to demand payments from the public, such as taxes, duties, fines, and penalties. Nonexchange revenue also includes donations.

The term "revenue" does not encompass all financing sources of USDA reporting entities, such as most of the appropriations they receive. These other sources of financing do, however, provide resource inflows to USDA reporting entities, although not to the Government as a whole. Accordingly, standards for accounting for these inflows are also provided.

12.51
Exchange Revenue

Exchange revenue and gains are inflows of resources to a USDA entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises when a USDA entity provides something of value to the public or another Government entity at a price.

12.51.1
Recognition and Measurement

Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price.

12.51.1.1
Unusual or Non-Recurring Transactions

When a transaction with the public or another Government entity at a price is unusual or nonrecurring, a gain or loss should be recognized rather than revenue or expense so as to differentiate such transactions.

12.51.1.2
General Standards

Revenue from specific types of exchange transactions should be recognized as follows:

(a) When services are provided to the public or another Government entity (except for specific services produced to order under a contract), revenue should be recognized when the services are performed.

(b) When specific goods are made to order under a contract (either short- or long-term), or specific services are produced to order under a contract (either short- or long-term), revenue should be recognized in proportion to estimated total cost when goods and services are acquired to fulfill the contract. If a loss is probable (i.e., more likely than not), revenue should continue to be recognized in proportion to the estimated total cost and costs should continue to be recognized when goods and services are acquired to fulfill the contract. Thus, the loss should be recognized in proportion to total cost over the life of the contract. (Note: This standard is an exception to the general principle of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," which, but for this exception, would require a loss on a contract to be recognized at the time when expected costs exceeded expected revenue. However, the expected loss must be disclosed: see the disclosure requirement in section 12.51.2 below.)

(c) When goods are kept in inventory so that they are available to customers when ordered, revenue should be recognized when the goods are delivered to the customer. For example, the Commodity Credit Corporation records sales of commodity inventory when the commodities are delivered.

(d) When services are rendered continuously over time or the right to use an asset extends continuously over time, such as the use of borrowed money or the rental of space in a building, the revenue should be recognized in proportion to the passage of time or the use of the asset. For example, the Farm Service Agency (FSA) is the lead agency for leasing space with co-located agencies (such as the Natural Resources Conservation Service and Rural Development) in hundreds of field locations. FSA collects revenues from the co-located agencies on an annual basis as the rent is paid (see Chapter 13, Section 13.82.11, “Shared Office Expenses”). The interest received on money borrowed in an intragovernmental transaction is an exchange revenue when the source of the borrowed funds is predominantly exchange revenue and is a nonexchange revenue when the source of the borrowed funds is predominantly nonexchange revenue or other financing sources.

(e) When an asset other than inventory is sold, any gain (or loss) should be recognized when the asset is delivered to the purchaser.

12.51.1.3 Advances

When advance fees or payments are received, such as for large-scale, long-term projects, revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as "unearned revenue," should be recorded when the cash is received. "Unearned revenue" should also be recorded if an agency requests advances or progress payments prior to the receipt of cash and records the amount. A request for an advance should be recorded if a claim to cash is established based on legal provisions, such as a payment due date.

12.51.1.4 Measurement

The measurement basis for revenue from exchange transactions should be the actual price that is received or receivable under the established pricing arrangements.

12.51.1.5 Accounts Receivable

When cash has not yet been received at the time revenue is recognized, a receivable should be recorded. An appropriate allowance for estimated bad debts should be established.

12.51.1.6 Bad Debts

To the extent that realization of the full amount of revenue is not probable due to credit losses (caused by the failure of the debtor to pay the established or negotiated price), an expense should be recognized and the allowance for bad debts increased if the bad debts can be reasonably estimated. The amount of the bad debt expense should be separately shown.

12.51.1.7 Returns and Allowances

To the extent that realization of the full amount of revenue is not probable due to returns, allowances, price redeterminations, or other reasons apart from credit losses, the revenue that is recognized should be reduced by separate provisions if the amounts can be reasonably estimated. The amounts of such provisions should be reflected as revenue adjustments, rather than costs of operations, and should be separately shown.

12.51.1.8 Loans and Loan Guarantees

The recognition and measurement of revenue and credit losses due to direct loans and loan guarantees is determined by standards contained in Chapter 6, Loan Programs and Debt Collection, Section 6.__. Appropriate allowances should be established as determined by those standards.

12.51.1.9 Net Cost of Operations

Exchange revenue should be recognized in determining the net cost of operations of the reporting entity during the period. The exchange revenue should be recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities. Gross and net cost should be calculated as appropriate to determine the costs of outputs and the total net cost of operations of the reporting entity. The components of the net cost calculation should separately include the gross cost of providing goods or services that earned exchange revenue, less the exchange revenue earned, and the resulting difference. The components of net cost should also include separately the gross cost of providing goods, services, benefit payments, or grants that did not earn exchange revenue.

12.51.1.10 Gains and Losses

The net amount of gains (or losses) should be subtracted from (or added to) gross cost to determine net cost in the same manner as exchange revenue is subtracted. Exchange revenue that is immaterial or cannot be associated with particular outputs should be deducted separately in calculating the net cost of the program, suborganization, or reporting entity as a whole as appropriate. Nonexchange revenues and other financing sources should not be deducted from the gross cost in determining the net cost of operations for the reporting entity.

12.51.1.11 Revenues Associated With Little or No Cost

Under exceptional circumstances, such as collection of fees in exchange for grazing rights on national forest lands, an entity recognizes virtually no costs (either during the current period or during past periods) in connection with earning revenue that it collects. The collecting entity should not offset its gross costs by such exchange revenue in determining its net cost of operations. If such exchange revenue is retained by the entity, it should be recognized as a financing source in determining the entity's operating results. If, instead, such revenue is collected on behalf of other entities (including the U.S. Government as a whole), the entity that collects the revenue should account for that revenue as a custodial activity, i.e., an amount collected for others.

12.51.1.12 Transfers of Low- or No-Cost Revenue

If the collecting entity transfers the exchange revenue to other entities, similar recognition by other entities is appropriate.

(a) If the other entities to which the revenue is transferred also recognize virtually no costs in connection with the Government earning the revenue, the amounts transferred to them should not offset their gross cost in determining their net cost of operations but rather should be recognized as a financing source in determining their operating results.

(b) If the other entities to which the revenue is transferred do recognize costs in connection with the Government earning the revenue, the amounts transferred to them should offset their gross cost in determining their net cost of operations.

Because the revenue is exchange revenue regardless of whether related costs are recognized, it should be recognized and measured under the exchange revenue standards.

12.51.2 Disclosures

Each USDA reporting entity that provides goods or services to the public or another Government entity should disclose the following:

(a) differences in pricing policy from the full cost or market pricing guidance for exchange transactions with the public as set forth in OMB Circular No. A-25, User Charges (July 8, 1993), or in subsequent amendments in circulars that set forth pricing guidance;

(b) exchange transactions with the public in which prices are set by law or executive order and are not based on full cost or on market price. (Note that the pricing guidance in OMB Circular No. A-25 does not apply to prices set by law or executive order.)

(c) the nature of intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost or does not charge a price at all, with explanations of the amount and reason for disparities between the billing (if any) and the full cost; and

(d) the full amount of the expected loss when specific goods are made to order under a contract, or specific services are produced to order under a contract, and a loss on the contract is probable (more likely than not) and measurable (reasonably estimable).

12.51.2.1
Revenue Forgone

When making the disclosures called for by (a) and (b) in section 12.51.2, cautionary language should be added to the effect that higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue forgone. If a reasonable estimate is practicable to make, the entity should provide as other accompanying information the amount of revenue forgone and should explain whether, and to what extent, the quantity demanded was assumed to change as a result of a change in price. For example, the Grain Inspection Packers and Stockyards Administration (GIPSA) provides inspection services based on established prices for inspections of various commodities such as rice, wheat, et al. In cases where reduced demand for inspection services is related to an increase in its established prices for the inspections rather than to economic factors such as technological advances and seasonal conditions, GIPSA must disclose an estimate of the amount of revenue forgone, if feasible, and describe how and to what extent inspection services requested changes as a result of the increase in prices.

12.51.2.2
Examples of Exchange Revenue

The various types of exchange revenue are described in Appendix A: “Guidance for the Classification of Transactions.” Some types of exchange revenue are not specifically mentioned in this standard. These should be recognized and measured in accordance with the general rule except where other standards (such as credit reform or property) apply.

12.52

Nonexchange revenues are inflows of resources that the

Nonexchange Revenue

Government demands or receives by donation. Such revenue should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. Nonexchange revenue should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue (the recipient entities). The following sections describe the application of this general standard.

12.52.1
General Standards

Nonexchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. Nonexchange revenue should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue (the recipient entities). Paragraphs 49 through 63 describe the application of this general standard.

12.52.2
Fines and Penalties

Fines and penalties are monetary requirements imposed on those who violate laws or administrative rules. They may be imposed by the entities collecting taxes and duties, or by other government entities. The time when a claim to resources arises will depend on the nature of the fine and the associated legal and administrative processes. Some examples of conditions that, depending on the circumstances, could establish a legally enforceable and measurable claim include (1) the date by which an individual may contest a court summons expires, (2) the offender pays the fine before a court date, or (3) the court imposes the fine. Fines and penalties imposed by USDA agencies count as revenue only when the entity receiving the inflow of resources is legally entitled to retain the amount collected. Fines and penalties which must be deposited in the General Fund are treated as custodial activity.

12.52.2.1
Allowance for

An allowance for uncollectible accounts should be recognized as a revenue adjustment and determined in

Uncollectible Accounts

accordance with other standards. The allowance should reduce the gross amount of the receivable and revenue to its net realizable value, based on the criterion that losses should be recognized to the extent it is probable (more likely than not) that some or all of the receivables will not be totally collected. Chapter 6, "Loan Programs and Debt Collection," Section 6.__ contains the standard for establishing the bad debt allowance.

12.52.3
Donations

Donations are contributions to the government, i.e., voluntary gifts of resources to a government entity by a nonfederal entity. Donations may be financial resources, such as cash or securities, or nonfinancial resources such as land or buildings. Revenue arising from donations should be recognized for those inflows of resources which meet recognition criteria for assets and should be measured at the estimated fair value of the contribution. (For the recognition criteria for donated property, plant and equipment, see Chapter 9, "Real and Personal Property," section 9.__.)

12.52.4
Other Nonexchange Revenue

The various types of nonexchange revenue are described in Appendix A: "Guidance for the Classification of Transactions." Some types of nonexchange revenue are not specifically mentioned in this standard. These should be recognized and measured in accordance with the general rule except where other standards (such as credit reform or property) apply.

12.52.5
Trust Fund Revenues

If trust fund revenues are not recorded in accordance with applicable law, both the collecting and recipient entities should disclose the reasons.

12.53
Other Financing Sources

Financing sources, other than exchange and nonexchange revenues, that provide inflows of resources that increase results of operations during the reporting period include appropriations used, transfers of assets from other Government entities, and financing imputed with respect to any cost subsidies. (Note that Chapter 6, "Loan Programs and Debt Collection," contains the accounting standards which determine the criteria for the imputation of costs and how those costs shall be measured.) This chapter provides guidance for accounting for the corresponding financing source that is reported in such cases. Financing outflows may result from transfers of the reporting entity's assets to other Government entities or from exchange revenues earned by the entity but required to be transferred to the General Fund or another Government entity. Unexpended appropriations are recognized separately in determining net position but are not financing sources until used.

12.53.1
Recognition and Measurement: Appropriations

Appropriations, until used, are not a financing source. They should be recognized in capital as "unexpended appropriations" (and among assets as "funds with Treasury") when made available for apportionment, even if a Treasury Warrant has not yet been received, or the amount has not been fully apportioned. See Chapter 4, “Budget Execution and Funds Control,” for a general discussion of the budget cycle and terminology.

12.53.1.1
Unexpended Appropriations

Unexpended appropriations should be reduced for appropriations used and adjusted for other changes in budgetary resources, such as rescissions and transfers. The net increase or decrease in unexpended appropriations for the period should be recognized as a change in net position of the entity.

12.53.1.2
Appropriations Used

When used, appropriations should be recognized as a financing source in determining net results of operations. Appropriations are used in operations when goods and services are received or benefits and grants are provided. Goods and services (including amounts capitalized) are considered received when a liability is established. Benefits are considered to be provided when the related liability is established. Grants are considered to be provided when grantees meet the requirements that allow them to use the grants.

12.53.2
Financing Imputed for Cost Subsidies

USDA entities often receive goods and services from other Government entities without reimbursing the providing entity for all the related costs. In addition, Government entities often incur costs, such as for pensions, that are paid in total or in part by other entities. These constitute subsidized costs to be recognized by the receiving entity to the extent required by other accounting standards. An imputed financing source should be recognized equal to the imputed cost. This offsets any effect of imputed cost on net results of operations for the period. An example of imputed costs would be the post-employment benefit costs of retired USDA employees, which are borne by the Civil Service Retirement Fund, administered by the Office of Personnel Management (OPM). General purpose USDA financial reports for a given period should reflect the imputed post-retirement benefit costs for former USDA employees, which will be supplied by OPM.

12.53.3
Transfers of Assets

An intragovernmental transfer of cash or of another capitalized asset without reimbursement changes the resources available to both the receiving entity and the transferring entity. The receiving entity should recognize a transfer-in as an additional financing source in its result of operations for the period. Similarly, the transferring entity should recognize the transfer-out as a decrease in its result of operations. The value recorded should be the transferring entity's book value of the asset. If the receiving entity does not know the book value, the asset should be recorded at its fair market value as of the date of transfer.

12.53.3.1
Transfers of Exchange Revenues

To the extent that a USDA entity's exchange revenue that is included in calculating net cost of operations is required to be transferred to the Treasury or another Government entity, the amount should be recognized as a transfer-out in determining the net result of operations. These transfers are distinguished from custodial transfers in that transfers involve assets that have been earned or in use by the entity in carrying out its programs whereas custodial transfers involve funds that have been collected on behalf of another entity. Accounting for custodial transfers is described in Section 12.54 covering nonexchange revenue.

12.53.3.2

SGL account 5720, “Financing Sources Transferred in

Transfers In and Out

Without Reimbursement" represents all capital contributed or transferred in to the entity other than that defined as capital investment (i.e., capital valued at par or stated value). Transfers out use SGL account 5730, "Financing Sources Transferred out Without Reimbursement." At year's end, the 5720 and 5730 revenue accounts would close into SGL account 3310, "Cumulative Results of Operations."

12.53.3.3
Donated Revenue

The equity account formerly call "Donated Capital" has been changed to a revenue account, "Donated Revenue." This account (SGL account 5600) represents the amount of assets transferred for which repayment is not required. This account also contains amounts borrowed from Treasury for the crop insurance program. (The Commodity Credit Corporation, which has the borrowing authority, borrows the funds and transfers them to the Federal Crop Insurance Corporation, which administers the crop insurance program.) The balance in account 5600 would close into SGL account 3310, "Cumulative Results of Operations," at year's end. The SGL contra revenue account 5609 would be used for reversals and would not close to "Cumulative Results."

12.53.4
Prior period adjustments

Prior period adjustments should be limited to corrections of material errors in accounting and accounting changes with retroactive effect, including those occasioned by the adoption of new federal financial accounting standards, and should be recognized and measured under applicable standards. Prior period adjustments would **not** include changes in accounting estimates, such as end-of-period accruals, even if such changes are material. Adjustments should be recognized as a change in cumulative results of operations (rather than as an element of net results of operations for the period). Prior period financial statements should not be restated for prior period adjustments recognized in the current period.

12.54
Collections on Behalf

Inflows of resources collected by agencies which are eventually transferred to the General Fund or another entity

of Another Agency

are **not** considered revenues to the initial collecting agencies. The entities which initially collect these funds are considered only temporary custodians of the funds. For example, regulatory user fees collected by the Customs Service on behalf of APHIS from airline passengers coming into the United States are counted as exchange revenues by APHIS but are treated as custodial activity by Customs. Another example involves the income and other taxes withheld from employees' salaries and forwarded to the Internal Revenue Service (IRS), Social Security Administration (SSA), and other agencies. These funds are collected on behalf of the taxing authorities, since the Department of Agriculture does not have authority to collect such taxes. The collections are made as an administrative convenience to the taxing authorities. USDA does not count tax collections as revenues, while the IRS and SSA do.

If the collecting agency is paid a fee for making the collections, including authority to retain a percentage of the funds collected, the fee so paid would represent exchange revenue to the collecting agency. However, the collection of the funds on behalf of the other agency and the fee transaction are two separate events which must be accounted for separately.

12.54.1
Preparation of Statement of Custodial Activity

Entities which collect taxes, such as federal income taxes or social security taxes withheld from employees' salaries, and then forward the withheld amounts to the proper custodial authority, such as the IRS or the SSA, do not have to prepare the Statement of Custodial Activity. That financial statement is intended to be prepared only by the IRS, the Customs Bureau, and SSA, which have the program authority to levy the taxes, whose primary mission it is to collect the taxes, and which act as stewards for the taxes until they are deposited into the appropriate fund (the General Fund, the Social Security Trust Fund) and held for disbursement for lawful purposes. The sources and disposition of such collections made by USDA entities, if material, should be disclosed in a footnote to the financial statements.

APPENDIX A Guidance for the Classification of Transactions

This appendix provides guidance for the classification of specific transactions based on the standards for accounting for revenue and other financing sources. It is intended that these classifications will provide guidance for classifying all the financing transactions of USDA, including those that are not specifically listed. It should be understood that while some classifications are unequivocal, others are the result of balancing different considerations.

The transactions in this appendix are divided into several groups. Transactions recognized in the financial statements have a two-fold division: first, whether they are with the public or intragovernmental; and second, whether they are nonexchange transactions, exchange transactions that produce revenue, exchange transactions that produce gains or losses, or other financing sources. A separate group consists of gains and losses due to revaluation.

Exchange transactions are classified as producing gains or losses if they are likely to be unusual or nonrecurring. If the transactions classified in this appendix as gains or losses are usual and recurring for a particular reporting entity, that entity should classify them as producing exchange revenue or expense instead of gains or losses.

The final group of transactions in this appendix consists of transactions that produce amounts not recognized as revenues, gains, or other financing sources. Although in some instances there is overlap with other groups, they are presented together as a convenient reference to amounts not classified in any of the other categories. They include:

- A number of transactions in which there is no net inflow of resources (or the net inflow is less than the full amount of the transaction) because one asset is exchanged for another or there is an increase in both assets and liabilities.

- Certain transfers and donations that do not affect net cost or net position.

o A number of transactions involving direct loans and loan guarantees, which are recognized as expenses or reductions in expenses according to the standards in Chapter 6, “Loan Programs and Debt Collection.”

o Deposit fund transactions.

As a guide to this appendix, the following table lists in order the transactions that are illustrated, group by group, and cites the page. Unless otherwise stated:

o Revenue from nonexchange transactions is included in determining the net operating results and hence the change in net position.

o Revenue from exchange transactions is subtracted from gross cost in determining the net cost of operations. (Gains and losses from exchange transactions also affect net cost.)

o Other financing sources are included in determining the net operating results and hence the change in net position.

In addition, the collection and disposition of most nonexchange revenue and a small part of exchange revenue is accounted for as a custodial activity of the collecting entity.

TABLE OF TRANSACTIONS

TRANSACTIONS WITH THE PUBLIC PAGE

TRANSACTIONS WITH THE PUBLIC

Nonexchange transactions with the public

Donations: except types of property, plant, and equipment that are expensed.--Donations are contributions to the Government, i.e., voluntary gifts of resources to a Government entity by a non-Federal entity. The term "donations" includes wills disposing of property and judicial proceedings other than forfeitures. The Government does not give anything of value to the donor, and the donor receives only personal satisfaction. The donation of cash, other financial resources, or nonfinancial resources (except stewardship property, plant, and equipment) is therefore a nonexchange revenue.

The exception, stewardship PP&E, consists of Federal mission PP&E, heritage assets, and stewardship land. Such PP&E is expensed if purchased, but no amount is recognized if it is received as a donation. Correspondingly, no revenue is recognized for such donations.

Fines and penalties: Fines and penalties are monetary requirements imposed on those who violate laws or administrative rules. The person or other entity that pays a fine or penalty does not receive anything of value in exchange, nor does the Government sacrifice anything of value. The Government collects these amounts through the exercise of its power to compel payment. Fines and penalties are therefore a nonexchange revenue.

Fines from judicial proceedings are collected by the entity acting as an agent for the Government as a whole rather than on its own behalf. They are therefore accounted for as a custodial activity of the collecting entity and recognized as a nonexchange revenue in the Government-wide consolidated financial statements.

Fines and penalties produced by an entity's operations--such as inspections to ensure compliance with Federal law and with regulations that are the responsibility of the entity or compliance with regulations for the conduct of a Federal program--are recognized as nonexchange revenue by whichever entity is legally entitled by law to the revenue. In some cases, but not all, this would be the collecting entity. If the collecting entity transfers the nonexchange revenue to the General Fund or another entity, the amount is accounted for as a custodial activity by the collecting entity. If transferred to the General Fund, the penalties are recognized as nonexchange revenue in the Government-wide consolidated financial statements; if transferred to another entity, they are recognized as nonexchange revenue by the entity that receives the transfer.

Forfeitures: Property may be seized as a consequence of various laws and regulations and forfeited to the Government. Forfeited property may be acquired through forfeiture proceedings, be acquired to satisfy a tax liability, or consist of unclaimed and abandoned merchandise. Forfeited property is principally managed by the Asset Forfeiture Fund of the Justice Department and the Treasury Forfeiture Fund of the Treasury Department, to which the USDA Office of Inspector General is a participating agency. Revenue is recognized from forfeited property unless the property is distributed to state or local law enforcement agencies or foreign governments or is received in satisfaction of a previously recognized revenue (e.g., accrued tax receivables).

The timing of revenue recognition depends on how the property is forfeited and the nature of the property. In the case of unclaimed and abandoned merchandise, revenue is recognized in the amount of the sales proceeds at the time the property is sold. In the case of property acquired through forfeiture proceedings, the timing of recognition depends on the nature and disposition of the property. For monetary instruments, the revenue is recognized at the time of obtaining forfeiture judgment; for property that is sold, at the time of sale; and for property that is held for internal use or transferred to another Federal agency, at the time of obtaining approval to use the property internally or transfer it. The standard also requires deferred revenue to be recognized when a forfeiture judgment is obtained, but the deferred revenue is reversed when revenue is recognized. The amount of revenue ordinarily differs from the amount of deferred revenue. In some cases, an adjustment subsequent to the original forfeiture judgment may be necessary when it is later determined that a portion of the forfeiture is to be distributed to state or local law enforcement agencies or foreign governments.

The method of measuring revenue depends on the nature of the property. The amount of revenue recognized for monetary instruments is the market value when the forfeiture judgment is obtained. For property that is sold, it is the sales proceeds. For property that is held for internal use or transferred to another Federal agency, it is the fair value of the property less a valuation allowance for any liens or third party claims.

The revenue from forfeiture is nonexchange revenue, because the Government seizes the property through the exercise of its power. The Government does not sacrifice anything of value in exchange and the entity that forfeits the property does not receive anything of value. More than half of the forfeiture revenue of the two funds mentioned above is from currency and other monetary instruments. Although other types of forfeited property must be sold in order to recognize revenue, or constructively sold (if transferred to another Federal agency or placed into internal use), this is the last step in a process that is inherently nonexchange.

The disposition of the revenue from forfeiture is determined by law. Revenue or the property itself may ultimately be distributed to the seizing entity (e.g., OIG), state or local law enforcement agencies, foreign governments, or the general fund. Revenue is recognized as nonexchange revenue by the entity that is legally entitled to use the revenue or to use the property itself. If the property is distributed to a state or local law enforcement agency or a foreign government, revenue is not recognized by a Federal Government reporting entity. If the revenue is transferred to the General Fund, it is recognized as nonexchange revenue in the Government-wide consolidated financial statements.

Some entities may be involved in the management and liquidation of forfeited property but not themselves be entitled to the revenue or to the use of the property. For example, a central fund created to support the seizure activities of multiple entities may manage forfeited property and the collection and disposition of the revenue from that property. These entities should account for the property as a custodial activity. Revenue is shown when it is recognized, and it is shown as transferred to others when the cash is disbursed or the property is delivered. The disposition of property to an entity outside the Federal Government is also accounted for.

Exchange transactions with the public: revenue

<u>Sales of goods and services</u>: The cost of production for goods and services is defrayed in whole or in part by revenue from selling the goods or services provided. For example, costs incurred for storage, processing, and shipment of commodities by the Commodity Credit Corporation (CCC) are offset by sales made by a revolving fund maintained by CCC. The Agricultural Research Service, using an appropriated fund, performs research projects and sells patent rights to the public for a fee. Each party receives and sacrifices something of value. The sale is therefore an exchange transaction, and the revenue is exchange revenue for the entity making the sale.

<u>Sales of goods and services in undercover operations</u>: The cost of the Government's undercover operations is defrayed in whole or in part from the proceeds of sales of goods that have been purchased (as opposed to goods that have been forfeited). Each party receives and sacrifices something of value. These characteristics of the transaction are not affected by whether the sale is illegal. The sale is therefore an exchange transactions, and the revenue is exchange revenue of the entity making the sale.
For example, OIG may use their confidential funds to make purchases of food stamps to be used in investigative efforts. The food stamps are subsequently sold and the proceeds received are transferred to the U.S. Treasury.

Interest (unless classified elsewhere), dividends, and rents (except for mineral rights) on Government property: Each party receives and sacrifices something of value, so the inflow of resources is an exchange transaction.

Interest is classified as exchange revenue notwithstanding the fact that the entity may not be charged a cost of capital for the assets that yield these inflows; or, if the entity borrowed from Treasury to acquire the assets, it may have been charged a below-market interest rate. The gross cost of the entity is understated in such cases; and to recognize an exchange revenue is to recognize a revenue without some or all of the related costs, and hence to understate the entity's net cost of operations. Nevertheless, in some cases the entity does pay the Treasury at least some interest; and the Government's cost of borrowing to acquire the assets is recognized as a cost of the Government as a whole. Since some cost is recognized, even if not always the full cost of the entity, an exchange revenue is recognized for the entity that receives the inflow of interest. [Note: The partial recognition of associated cost distinguishes interest from revenues where the collecting entity recognizes virtually no costs. For the latter transactions, see the next paragraph.]

An example of rent revenue is rents collected by the FS from hotels, restaurants, and other entities which have built facilities on FS land.

Rents and other revenue sources for which the collecting entity recognizes virtually no costs: Rents, royalties, and bonuses are exchange revenues, because each party receives and sacrifices something of value. The amounts are earned by sales in the market and therefore are exchange revenue.

The rents transferred to Treasury for the General Fund, or to other Government reporting entities, should be recognized by those entities as exchange revenue. However, neither the Government as a whole nor the other recipient entities recognize the natural resources as an asset and depletion as a cost. Therefore, this exchange revenue should not offset their gross cost in determining their net cost of operations. It should instead be a financing source in determining their operating results and change in net position.

Interest on post-1991 direct loans: Post-1991 direct loans consist of direct loans that were obligated after September 30, 1991, whereas pre-1992 direct loans consist of direct loans that were obligated before October 1, 1991. The same accounting that is used for post-1991 direct loans is also used for pre-1992 direct loans that were modified and transferred to financing accounts; loans receivable arising from defaulted post-1991 guaranteed loans; and loans receivable arising from defaulted pre-1992 guaranteed loans that were modified and transferred to financing accounts. [For interest on pre-1992 direct loans, see the preceding section on interest (unless classified elsewhere.) Interest on direct loans is an exchange transaction, because it is part of a broader exchange transaction in which the entity makes a loan to the borrower and the entity and borrower each receives and sacrifices something of value. Interest on direct loans that are budgeted according to the provisions of the Federal Credit Reform Act of 1990 consists of two components: the nominal interest (the stated interest rate times the nominal principal) and the amortized interest (change in present value of the loans receivable due to the passage of time). The combined effect of these components equals the effective interest, which is directly defined as the present value of the loans receivable times the Treasury interest rate applicable to the particular loans (i.e., the interest rate used to calculate the present value of the direct loans when the direct loans were disbursed). The effective interest causes an equal increase in the aggregate value of the assets on the balance sheet, and therefore the effective interest is the amount recognized as exchange revenue.

<u>Interest on receivables that arise as the result of custodial operations</u>: Receivables that arise as the result of custodial operations are custodial (or non-entity) assets, held by an entity as an agent for the Government as a whole rather than on its own behalf (e.g., IRS tax receivables on which the delinquent taxpayer must pay interest). The interest is an exchange revenue, because each party receives and sacrifices something of value, but it is not related to the costs incurred by the collecting entity. The interest is accounted for as a custodial activity by the collecting entity. If transferred to the General Fund, the interest is recognized as exchange revenue in the Government-wide consolidated financial statements because it is related to the government's cost of borrowing; if transferred to another entity, it is recognized as nonexchange revenue by the entity that receives the transfer.

<u>Regulatory user fees such as inspection, grading, and classifying agricultural commodities</u>: Regulatory user fees are charges based on the Government's power to regulate particular businesses or activities. The revenue is related to the cost in one of two ways. Special benefits may be provided to identifiable recipients who pay the fees, beyond the benefits, if any, that accrue to the general public (e.g., passport fees); or the Government may incur costs in order to regulate an identifiable entity for the benefit of the general public or some other group, in which case the user charge compensates the Government for its regulatory costs that were caused by the activity of the party that pays the charge (e.g., APHIS, GIPSA, and AMS inspection fees). Because in general the revenue is closely related to the cost of operations, these fees are classified as exchange transactions and the revenue is an exchange revenue of the entity that charges the fee.

The APHIS user fees are charged to travelers entering the country. The collections are dedicated by law to a special fund whose receipts are made available to finance APHIS operations. GIPSA fees are levied for providing services including inspection, licensing, and registration. AMS fees are charged for inspecting, grading, and classifying various agricultural commodities.

Premiums for crop insurance: In exchange for a premium and other considerations, the Government promises to make payments to program participants if specified events occur. The premium offsets the cost of the program in whole or in part. The degree to which participation is voluntary differs from program to program. Because the revenue is related to the cost of the providing service, it is an exchange revenue of the insurance program.

Reimbursement for cleanup costs: USDA entities may incur costs to clean up environmental hazards caused by private parties and, in some cases, require these private parties to reimburse it for the costs incurred. Notwithstanding that the Government demands the revenue under its power to compel payment, the revenue arises from the action of the private parties and is closely related to the cost of operations incurred as a result of that action. Therefore, the revenue is an exchange revenue of the entity that incurs the cost.

Exchange transactions with the public: gains and losses

As explained in the introduction to this appendix, transactions that are classified as producing gains or losses should instead be classified as producing revenue or expense if they are usual and recurring for a particular reporting entity.

Sales of USDA assets other than property, plant, and equipment and forfeited and foreclosed property: The sale of USDA assets (other than property, plant, and equipment and forfeited and foreclosed property) is an exchange transaction, because each party receives and sacrifices something of value. If the sales price equals book value, there is no gain or loss, because a cash inflow equal to book value is the exchange of one asset for another of equal recorded value and therefore not a net inflow of resources. If the sales price is more or less than the book value of the property, a gain or loss, respectively, is recognized to the extent of the difference. The amount of the difference between sales price and book value is ordinarily a gain or loss rather than a revenue or expense, because sales of property are ordinarily an unusual or nonrecurring inflow of resources. Examples of the sale of USDA assets to the public include:

(a) The Cotton Division, AMS, gets approximately 10% of their revenue from the sale of cotton taken in inspection sampling;

(b) The sale of maps by the FS, which purchases the maps for resale from the Geological Survey;

(c) Receipt of royalties (by the FS) from selling the rights to use trademarked assets such as "Smokey the Bear;"

(d) Sale of commodities inventory by CCC;

(e) Sale of patent rights and performance of research to private industry (by ARS);

<u>Sales of property, plant, and equipment</u>.-- The transaction is an exchange transaction, because each party receives and sacrifices something of value. If the sales price [which may include the fair value of items received in exchange] equals book value, there is no gain or loss, because a cash inflow equal to book value is the exchange of one asset for another of equal recorded value and therefore not a net inflow of resources. If the sales price is more or less than book value, a gain or loss, respectively, is recognized to the extent of the difference. The amount of the difference is ordinarily a gain or loss rather than a revenue or an expense, because sales of property, plant, and equipment are ordinarily an unusual or nonrecurring inflow of resources.

An example of the sale of USDA PP&E assets would be the sale or trade-in of aircraft or other vehicles (from, e.g., FS or APHIS) which could generate a loss or gain depending on the market versus the book value. Automobiles and trucks which are either excessed or transferred (donated) without reimbursement would not generate a loss or gain. The entire sales price is a gain if the book value of the asset is zero. The book value is zero (a) if the asset is general PP&E that is fully depreciated or written-off or (b) if the asset is stewardship PP&E, for which the entire cost is expensed when the asset is purchased. Note that PP&E is divided into two basic categories: general PP&E and stewardship PP&E (which consists of federal mission PP&E, heritage assets, and stewardship land). General PP&E is capitalized and recognized on the balance sheet; stewardship PP&E is expensed and thus has no book value. (For a discussion of stewardship PP&E, see Chapter 8, "Supplementary Stewardship Reporting.")

<u>Acquisition of property, plant, and equipment through exchange</u>.--The cost of property, plant, and equipment (PP&E) acquired through an exchange of assets with the public is the fair value of the PP&E surrendered at the time of exchange. If the fair value of the

PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost is the fair value of the PP&E acquired. If neither fair value is determinable, the cost of the PP&E acquired is the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. In the event that cash consideration is included in the exchange, the cost of PP&E acquired is increased (or decreased) by the amount of the cash surrendered (or received). A typical example of assets acquired through exchange is the trade-in of ADP equipment.

Any difference between the cost of the PP&E acquired and the book value of the PP&E surrendered is recognized as a gain or loss. [See Chapter 9, “Real and Personal Property,” Section 9.__.] It is a gain or loss rather than a revenue or expense, because ordinarily the amount would be an unusual or nonrecurring inflow of resources.

If the fair value of the PP&E acquired is less than the fair value of the PP&E surrendered, the PP&E acquired is recognized at its cost and subsequently reduced to its fair value. The difference between the cost of the PP&E acquired and its fair value is recognized as a loss.

<u>Sales of foreclosed property associated with pre-1992 direct loans and loan guarantees</u>:--Foreclosed property associated with pre-1992 direct loans and loan guarantees is recognized as an asset at net realizable value. The sale is an exchange transaction, and any difference between the sales proceeds and book value is recognized as a gain or loss.

<u>Sales of direct loans</u>.--The sale of a direct loan is a modification according to the Federal Credit Reform Act of 1990, regardless of whether the loan being sold was obligated after FY 1991 or before FY 1992. The book value loss (or gain) on a sale of direct loans equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. It normally differs from the cost of modification, which is recognized as an expense. This difference is due to the different interest rates used to discount future cash flows for calculating the subsidy cost (and subsidy allowance) when the loan is made and for calculating the cost of modification at a later time. If the sale is with recourse, the present value of the estimated loss from the recourse is also recognized as an expense.] Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. [See Chapter 6, “Direct Loans and Debt Collection,” Section 6.__.]

<u>Retirement of debt securities prior to maturity</u>.--Debt securities may be retired prior to maturity if they have a call feature or if they are eligible for redemption by the holder on demand, although sometimes with a penalty or other adjustment or only after a specified period of time.

Each party receives and sacrifices something of value in buying and selling debt securities that may be retired prior to maturity. The sales price reflects such features. Therefore, the transaction is an exchange transaction. The difference, if any, between the reacquisition price and the net carrying value of the extinguished debt is recognized as a loss or gain.

INTRAGOVERNMENTAL
TRANSACTIONS

Nonexchange transactions--intragovernmental: revenue

Interest on Treasury securities held by trust funds and special funds (except trust revolving funds).--Many trust funds and special funds hold Treasury securities on which they receive interest. In most cases the invested balances of these funds derive predominantly from the funds' earmarked taxes, which are nonexchange transactions with the public (e.g., employment taxes and gasoline taxes), and to a lesser extent from other financing sources received from other government entities (e.g., the General Fund payment appropriated to the Supplementary Medical Insurance fund). The balances are not earned in exchange transactions by the entity's operations. Most fundamentally, they are not produced by operations in which the entity incurs a cost.

Therefore, in such cases, the interest on Treasury securities should not be deducted from the gross costs of the trust fund (or special fund), or the organization in which it is administered, in determining its net cost of operations. As a result, that interest should not be classified as exchange revenue. It should instead have the same classification as the predominant source of the invested balances, which for most trust funds (and special funds) is nonexchange revenue. The interest received from invested balances of trust funds and special funds (except trust revolving funds) is therefore normally a nonexchange revenue.

Interest received by one fund from another.--One fund within the Government may borrow from another. For example, in 1983 the Old-Age and Survivors Insurance trust fund borrowed from the Disability Insurance and Hospital Insurance trust funds. When that occurs, the lending fund sacrifices interest from Treasury securities on its invested balances and instead receives interest from the borrowing fund on the amount of the loan. Since the predominant source of balances to the lending fund is the same regardless of whether it invests in Treasury securities or lends to another fund, the interest received from the other fund should be classified in the same way--as nonexchange or exchange revenue--as the interest received on Treasury securities.

Nonexchange transactions--intragovernmental: gains and losses

Retirement of debt securities prior to maturity: trust funds and special funds (except trust revolving funds): Treasury securities held by trust funds and special funds are primarily issued in the Government account series, which can generally be redeemed on demand. Other Treasury securities held by these funds may also be callable or redeemable on demand. If these debt securities are retired before maturity, the difference, if any, between the reacquisition price and the net carrying value of the extinguished debt should be recognized as a gain or loss by the fund that owned the securities. The gain or loss should be accounted for as a nonexchange gain or loss if the interest on the associated debt securities is classified as nonexchange revenue, and it should be accounted for as an exchange gain or loss if the interest on the associated debt securities is classified as exchange revenue. For trust funds (except trust revolving funds) and special funds, as explained elsewhere, the interest is normally but not always a nonexchange revenue.

The difference, if any, between the reacquisition price and the net carrying value of the extinguished debt should be recognized as a loss or gain in accounting for interest on Treasury debt. The amount should be equal in absolute value but with the opposite sign to the gain or loss recognized by the trust fund or special fund. The amount should be recognized as a gain or loss from exchange in order to offset it against the gross interest on Treasury debt in the Government-wide consolidated financial statements.

Cancellation of debt: The debt that an entity owes Treasury (or other agency) may be canceled by Act of Congress. The amount of debt that is canceled (including the amount of capitalized interest that is canceled, if any) is a gain to the entity whose debt is canceled and a loss to Treasury (or other agency). The purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations. Therefore, the cancellation of debt is not earned by the entity's operations and is not directly related to the entity's costs of providing goods and services. As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.

Exchange transactions--intragovernmental: revenue

Intragovernmental sales of goods and services by a revolving fund.--The cost of providing goods or services by a revolving fund is defrayed in whole or in part by selling the goods or services provided. Intragovernmental sales may be made by an organization that maintains either an intragovernmental revolving fund (such as the FS or CCC) or a public enterprise revolving fund. Each party receives and sacrifices something of value. The proceeds are an exchange revenue.

Intragovernmental sales of goods and services by a fund other than a revolving fund: The cost of providing goods or services is defrayed in whole or in part by selling the goods or services provided. Each party receives and sacrifices something of value. The proceeds are an exchange revenue.

Interest on Treasury securities held by revolving funds.--A revolving fund conducts a cycle of business-type operations in which the expenses are incurred to produce goods and services that generate revenue, and the revenue, in turn, finances expenses. Revolving funds need capital in their operations and may invest some of that capital in Treasury securities. Since their holding of invested balances and the sale of goods and services are both integral to the funds' operations, the interest on the funds' securities is related to the funds' cost of operations just as is the revenue earned from selling goods and services. Furthermore, the source of the invested balances is predominantly revenue earned from their sales of goods and services, for which the funds incurred costs of operations when that revenue was earned. The interest they receive should therefore be classified in the same way as their revenue earned from selling goods and services and should likewise be deducted from gross cost in determining the net cost of operations. For this reason, interest earned by revolving funds should normally be classified as exchange revenue.

The source of balances for some revolving funds may not be predominantly exchange revenue. For such exceptions, the interest should be classified in the same way as the predominant source of balances rather than according to the normal rule.

Interest on uninvested funds received by direct loan and guaranteed loan financing accounts.--A guaranteed loan financing account holds uninvested balances as reserves against its loan guarantee liabilities and earns interest on these balances that adds to its resources to pay these liabilities. A direct loan financing account may hold uninvested balances to bridge transactions that are integral to its operations, such as when it borrows from Treasury to disburse direct loans prior to the time of disbursement; it earns interest on these balances to reflect the time value of money and thereby finance the interest it pays on its debt to Treasury. Thus, in both cases, the interest received by the financing account is earned through exchange transactions with Treasury and is an offset to the financing account's related costs of operations. The interest is therefore an exchange revenue of the financing account.

Exchange transactions--intragovernmental: gains and losses

As explained in the introduction to this appendix, transactions that are classified as producing gains or losses should instead be classified as producing revenue or expense if they are usual and recurring for a particular reporting entity.

Retirement of debt securities prior to maturity: revolving funds and trust revolving funds: Treasury securities held by revolving funds and trust revolving funds are primarily issued in the Government account series, which can generally be redeemed on demand. Other Treasury securities held by these funds may also be callable or redeemable on demand. If these debt securities are retired before maturity, the difference, if any, between the reacquisition price and the net carrying value of the extinguished debt should be recognized as a gain or loss by the fund that owned the securities. The gain or loss should be accounted for as a nonexchange gain or loss if the interest on the associated debt securities is classified as nonexchange revenue, and it should be accounted for as an exchange gain or loss if the interest on the associated debt securities is classified as exchange revenue. For revolving funds and trust revolving funds, as explained elsewhere, the interest is normally but not always an exchange revenue.

The difference, if any, between the reacquisition price and the net carrying value of the extinguished debt should be recognized as a loss or gain in accounting for interest on Treasury debt. The amount should be equal in absolute value but with the opposite sign to the gain or loss recognized by the revolving fund or trust revolving fund. The amount should be recognized as a gain or loss from exchange in order to offset it against the gross interest on Treasury debt in the Government-wide consolidated financial statements.

Other financing sources--intragovernmental

Appropriations: Appropriations--a form of budget authority--permit an entity to incur obligations and make payments and thus are a means of financing the entity's cost. They are not otherwise related to the entity's cost and therefore are not an offset to its gross cost in determining its net cost of operations. They are not earned by the entity's activities, demanded by the entity, or donated to the entity. Therefore, appropriations provide an other financing source instead of a revenue.

More precisely, "appropriations used" is recognized as an other financing source in determining the entity’s operating results when the entity receives goods and services or provides benefits, grants, or other transfer payments. To avoid double counting, appropriations used are not recognized for the appropriation of earmarked revenues or other financing sources, which are already counted in determining the entity's operating results. Appropriations that have been made available for apportionment but have not been used are recognized as "unexpended appropriations" in the entity's capital.

Cost subsidies: difference between internal sales price (reimbursement) and full cost.--One entity may receive goods or services from another entity without paying the full cost of the goods or services or without paying any cost at all. Other Federal accounting standards may require the receiving entity to recognize the full cost as an expense (or, if appropriate, as an asset). In these cases the difference between full cost and the internal sales price or reimbursement (sometimes called a "transfer price") is an imputed cost to the receiving entity.

The financing of the imputed cost is also imputed to the receiving entity. Imputed financing is necessary so that the imputed cost does not reduce the entity's operating results and net position. The imputed financing equals the imputed cost and is recognized as an other financing source. It is not a revenue, because the receiving entity does not earn the amount imputed or demand its payment.

Cost subsidies: difference between the service cost of pensions (and other retirement benefits), less the employee contributions, if any, and the employer entity contributions: The service cost of pensions (and other retirement benefits) to the employer entity, less the employee contributions, if any, is recognized as a cost to the employer entity. The difference between the employer entity's cost and its contributions, if any, is imputed to the employer entity as part of its recognized cost. For pensions, the cost recognized by the employer entity is more than its contribution for employees who are covered by the Civil Service Retirement System and several minor systems (in a few of which the employer entity does not make any contributions toward the service cost). For retirement health care benefits, neither the employees nor the employer entity make any contributions while the employee is working. Note that retired employees do pay premiums, however, and the service cost to the employer entity is defined net of the actuarial present value of those future premiums. Therefore, the entire service cost is recognized as a cost to the employer entity and imputed to it.]

The financing of the imputed cost is also imputed to the employer entity. [The employer entity's own contribution, if any, is generally financed by an appropriation but could be financed by earned revenue or other sources.] The imputed financing is necessary so that the imputed cost does not reduce the employer entity's operating results and net position. The imputed financing equals the imputed cost and is recognized as an other financing source. It is not a revenue, because the employer entity does not earn the amount imputed or demand its payment. (This transaction differs from the immediately preceding transaction, in which an entity does not pay the full cost of the goods or services it receives from another entity. In the present case, the employer entity acquires the services of the employees itself, but another entity pays part of their cost.)

Transfer by CCC to Federal Crop Insurance Corporation.--The Commodity Credit Corporation (CCC) makes transfers to the Federal Crop Insurance Corporation (FCIC), which it finances by an appropriation. This payment does not arise from an exchange transaction, because FCIC does not sacrifice anything of value to CCC, and CCC does not receive anything of value from FCIC. It differs from the contribution to SMI primarily in that it is paid by another program entity (the CCC) rather than directly by the General Fund. Since the payment is not demanded or earned, it is an other financing source to FCIC rather than a revenue.

Transfer of cash and other capitalized assets without reimbursement.--Cash and other capitalized assets may be transferred without reimbursement from one Government entity to another. Cash may include exchange revenue that is recognized by the transferring entity in determining its net cost of operations but is required to be transferred to the General Fund or another entity; other capitalized assets may include general property, plant, and equipment. The receiving entity does not sacrifice anything of value, and the transferring entity does not acquire anything of value. Therefore, the transfer is not an exchange transaction. The receiving entity recognizes the transfer-in as an other financing source; the transferring entity recognizes the transfer-out as a negative financing source. The amount recorded by both entities is the transferring entity's book value of the asset.

Transfer of property, plant, and equipment without reimbursement: types that are expensed.--Property, plant, and equipment (PP&E) of types that are expensed (i.e., stewardship PP&E) may be transferred from one Government entity to another. If the asset was classified as stewardship PP&E in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity and therefore in such a case it is not a revenue, a gain or loss, or other financing source.

However, if the asset that is transferred was classified as general PP&E for the transferring entity but stewardship PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity.

REVALUATIONS

Revaluation of capitalized property, plant, and equipment.--Capitalized property, plant, and equipment (PP&E) may be removed from the general PP&E accounts if it no longer provides service in the operations of the entity because it has suffered damage, become obsolete in advance of expectations, or is identified as excess. It is recorded as an asset at its expected net realizable value. Any difference between the book value and the expected net realizable value is recognized as a gain or loss in determining the net cost of operations, because the revaluation results from the entity’s operations. The expected net realizable value is adjusted at the end of each period, and any further revaluation is also recognized as a gain or loss in determining the net cost of operations.

Since the revaluation does not affect obligations incurred but does affect net cost, an amount equal to the revaluation is recognized in determining the reconciliation between obligations incurred and net cost of operations. A reconciliation is not needed in determining the change in net position, because the revaluation affects net cost and net position equally.

Revaluation of inventory and related property.--Inventory and related property may be revalued for such reasons as determination that the property is excess, obsolete, or unserviceable; that stockpile materials have decayed or been damaged; that a loss is estimated on commodity purchase agreements; or that a change has occurred in the net realizable value of commodities valued at the lower of cost or net realizable value. The amount of revaluation is recognized as a loss or a gain in determining the net cost of operations, because it results from the entity’s operations. Assets are correspondingly reduced or increased.

Since the revaluation does not affect obligations incurred, but does affect net cost, an amount equal to the revaluation is recognized in determining the reconciliation between obligations incurred and net cost of operations. A reconciliation is not needed in determining the change in net position, because the revaluation affects net cost and net position equally.

TRANSACTIONS NOT RECOGNIZED AS REVENUES, GAINS, OR OTHER FINANCING SOURCES

Borrowing from the public.--Borrowing from the public is a means of financing the Government's outlays. However, it is not a net inflow of resources to the Treasury or other borrowing entity, because the asset received (cash) is offset by an equal liability (debt). Therefore, it is not revenue or an other financing source.

Borrowing from Treasury, the Federal Financing Bank, or other Government accounts.-- An entity may be provided the authority to borrow from Treasury, the Federal Financing Bank, or other Government accounts. Intragovernmental borrowing is a means of financing the entity's outlays. However, it is not a net inflow of resources to the entity, because the asset received (cash) is offset by an equal liability (debt). Therefore, it is not revenue or an other financing source.

Disposition of revenue to other entities: custodial transfers.--Revenue, primarily nonexchange revenue, may be collected by an entity acting on behalf of the General Fund or another entity within the Government on whose behalf it was collected. The collecting entity accounts for the disposition of revenue as part of its custodial activity. These custodial transfers, by definition, do not affect the collecting entity’s net cost of operations or operating results, nor are they part of the reconciliation between its obligations and net cost of operations. (The receiving entity recognizes the revenue as nonexchange or exchange revenue, depending on its nature, according to the applicable revenue standards.) An example would be Rural Development loan payments collected by RUS on behalf of the FFB, which issued the loans. (The fee collected by RUS from FFB for servicing these loans would be treated as exchange revenue.)

Sales of different types of Government assets: The sale of Government assets (other than forfeited property) is an exchange transaction, because each party receives and sacrifices something of value. As a general rule, any difference between the sales proceeds and book value is recognized as a gain or loss when the asset is sold. The remainder of the transaction does not provide a net inflow of resources, so no gain, revenue, or other financing source is recognized. If the sales proceeds equal book value, there is no gain or loss, because the exchange of one asset for another of equal recorded value is not a net inflow of resources.

This general rule applies to property, plant, and equipment, receivables (other than direct loans), foreclosed property associated with pre-1992 direct loans and loan guarantees, and miscellaneous assets. It does not apply to inventory, nor does it apply to forfeited property (as explained in the previous section on nonexchange revenue). It also does not apply to the sale of direct loans and the sale of foreclosed property associated with post-1991 direct loans and loan guarantees. The latter transactions are discussed in subsequent paragraphs.

Acquisition of property, plant, and equipment through exchange.--The cost of property, plant, and equipment (PP&E) acquired through an exchange of assets with the public is the fair value of the PP&E surrendered at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost is the fair value of the PP&E acquired. If neither fair value is determinable, the cost of the PP&E acquired is the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. In the event that cash consideration is included in the exchange, the cost of PP&E acquired is increased (or decreased) by the amount of the cash surrendered (or received).

Any difference between the cost of the PP&E acquired and the book value of the PP&E surrendered is recognized as a gain or loss. If the cost of the PP&E acquired equals the book value of the PP&E surrendered, there is no gain or loss (nor a revenue or other financing source), because the exchange of one asset for another of equal value does not provide a net inflow of resources. Therefore, the amount of the transaction equal to the book value of the PP&E surrendered is not recognized as a gain, a revenue, or an other financing source.

Transfer of property, plant, and equipment without reimbursement: types that are expensed.--Property, plant, and equipment (PP&E) of types that are expensed (i.e., stewardship PP&E) may be transferred from one Government entity to another. If the asset was classified as stewardship PP&E in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity and therefore in such a case it is not a revenue, a gain or loss, or other financing source.

However, if the asset that is transferred was classified as general PP&E for the transferring entity but stewardship PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity.

If multi-use heritage assets are transferred and some cost was recognized for them on the books of the transferring entity, that cost is recognized as a transfer-out (a negative other financing source) of capitalized assets. No amount is recognized by the entity that receives the asset.

Donation of property, plant, and equipment: types that are expensed.--The acquisition cost of stewardship property, plant, and equipment (PP&E) is recognized as a cost when incurred. Such PP&E consists of Federal mission PP&E, heritage assets, and stewardship land. When such PP&E is donated to the Government, however, no amount is recognized as a cost. Since the donation of such PP&E does not affect the net cost or net position of the recipient entity, it is not a revenue, a gain, or an other financing source.

Negative subsidies on post-1991 direct loans and loan guarantees.--A negative subsidy means that the direct loans or loan guarantees are estimated to make a profit, apart from administrative costs (which are excluded from the subsidy calculation by law). The amount of the subsidy cost is recognized as an expense when the direct loan or guaranteed loan is disbursed. A negative subsidy is recognized as a direct reduction in expense, not as a revenue, gain, or other financing source.

Downward subsidy reestimates for post-1991 direct loans and loan guarantees.--A downward subsidy reestimate means that the subsidy cost of direct loans or loan guarantees is estimated to be less than had previously been estimated. The initial subsidy cost is recognized as an expense; a positive subsidy reestimate is recognized as an expense; and a downward subsidy reestimate is recognized as a direct reduction in expense, not as a revenue, gain, or other financing source.

Fees on post-1991 direct loans and loan guarantees.--The present value of estimated fees is included as an offset in calculating the subsidy cost of direct loans and loan guarantees, which is recognized as an expense when the loans are disbursed. The present value of estimated fees is likewise included as one component in calculating the value of loans receivable or loan guarantee liabilities. When cash is received in payment of fees, the loans receivable decrease by an equal amount (or the loan guarantee liabilities increase by an equal amount). The increase in one asset is offset by an equal decrease in another asset (or by an equal increase in liabilities). Therefore, fees are not recognized as a revenue, a gain, or an other financing source. [Note that the fee component of the subsidy cost is required to be disclosed separately.]

Repayment of post-1991 direct loans: The present value of estimated loan repayments is included in the calculation of the subsidy cost of direct loans, and this subsidy cost is recognized as an expense when the loans are disbursed. The present value of estimated loan repayments is likewise included in the value of the loans receivable. When cash is received for the repayment of loans, the loans receivable decrease by an equal amount. The increase in one asset is offset by an equal decrease in another asset. Therefore, cash inflow from the repayment is not recognized as a revenue, a gain, or an other financing source. If the actual repayment is different from the previous estimate, the present value of the difference between cash inflows and outflows over the term of the loan--calculated as of the date of disbursement--is reestimated and is recognized as a subsidy expense or a reduction in subsidy expense.

Repayment of pre-1992 direct loans: When pre-1992 direct loans are repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or an other financing source. If the loan is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources.

Repayment of receivables: except direct loans.--When receivables other than direct loans are paid or repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or an other financing source. If the receivable is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources.

Sales of direct loans.--The sale of a direct loan is a modification according to the Federal Credit Reform Act of 1990 regardless of whether the loan being sold was obligated after FY 1991 or before FY 1992. The book value loss (or gain) on a sale of direct loans equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. It normally differs from the cost of modification, which is recognized as an expense. This difference is due to the different interest rates used to discount future cash flows for calculating the subsidy cost (and subsidy allowance) when the loan is disbursed and for calculating the cost of modification at a later time. If the sale is with recourse, the present value of the estimated loss from the recourse is also recognized as an expense. Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. The amount of cash inflow equal to book value is not a net inflow of resources to the entity, because it is an exchange of one asset for another of equal recorded value. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or an other financing source.

Sales of foreclosed property: associated with post-1991 direct loans and loan guarantees: The net present value of the cash flow from the estimated sales of foreclosed property is included in calculating the subsidy cost of post-1991 direct loans and loan guarantees. This subsidy cost is recognized as an expense when the loans are disbursed. When property is foreclosed, the property is recognized as an asset at the net present value of its estimated net cash flows. When the foreclosed property is sold, any difference between the sales proceeds and the book value (i.e., the net present value as of the time of sale) requires a reestimate of the subsidy expense, which is recognized as a subsidy expense or a reduction in subsidy expense. The amount of cash flow equal to book value is an exchange of one asset for another of equal recorded value and therefore is not recognized as a gain, a revenue, or an other financing source.

Deposit fund transactions.--Deposit funds are accounts outside the budget that record amounts that the Government (a) holds temporarily until ownership is determined or (b) holds as an agent for others. The standards and guidance in this Statement do not apply to deposit funds except insofar as a particular deposit fund may be classified as part of a Federal reporting entity or a disclosure may be required due to a fiduciary relationship on the part of a Federal reporting entity toward a deposit fund.

APPENDIX B: Glossary

Definitions of the terms used in this chapter may be found in the following glossary:

Apportionment - A distribution made by OMB of amounts available for obligation in an appropriation or fund account into amounts available for specified time periods, programs, activities, projects, objects, or combinations thereof. The apportioned amount limits the obligations that may be incurred.

Assessments - Enforceable claims for nonexchange revenue for which specific amounts due have been determined and the person from whom the tax or duty is due has been identified. They include assessments made by collecting entities as a result of audits, investigations, and litigation. Although the term is normally used in connection with taxes, as used in this chapter “assessments” also include determinations of amounts due for any other kind of nonexchange revenue.

Basic Financial Statements - As used in this chapter, the basic financial statements are those on which an auditor would normally be engaged to express an opinion. The term "basic" does not necessarily mean that other financial information not covered by the auditor's opinion is less important to users than that contained in the basic statements; it merely connotes the expected nature of the auditor's review of, and association with, the information. The basic financial statements in financial reports prepared pursuant to the Chief Financial Officers Act, as amended, are called the "principal financial statements." The Form and Content of these statements are determined by OMB.

Cost - The monetary value of resources used. The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service. Depending on the nature of the transaction, cost may be charged to operations immediately, i.e., recognized as an expense of the period, or to an asset account for recognition as an expense of subsequent periods. In most contexts in this chapter, "cost" is used synonymously with expense. See also "**Full Cost**."

Directed Flows of Resources - Expenses to nonfederal entities imposed by federal laws or regulations without providing federal financing. In the case of state and local governments, directed flows are known as "unfunded mandates." The costs and financing of federal regulations do not flow through the Government, but their effects are similar to direct federal expenditures and revenue.

Exchange Revenue - Inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return.

Full Cost - The total amount of resources used to produce the output. More specifically, the full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the responsibility segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities. All direct and indirect costs to any part of the Federal Government of providing goods, resources, or services.

General Fund - Accounts for receipts not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys.

General Purpose Financial Reports - Reports intended to meet the common needs of diverse users who typically do not have the ability to specify the basis, form, and content of the reports they receive.

Governmental Receipts - Collections from the public that result primarily from the exercise of the Government's sovereign or governmental powers. Governmental receipts consist mostly of individual and corporation income taxes and social insurance taxes but also include excise taxes, compulsory user charges, customs duties, court fines, certain license fees, gifts and donations, and deposits of earnings by the Federal Reserve System. They are compared to outlays in calculating a surplus or deficit.

Nonexchange Revenue - Inflows of resources to the Government that the Government demands or that it receives by donations. The inflows that it demands include taxes, duties, fines, and penalties.

Offsetting Collections - Collections from the public that result from business-type or market-oriented activities and collections from other Government accounts. These collections are deducted from gross disbursements in calculating outlays, rather than counted in governmental receipts. Some offsetting collections are credited directly to appropriation or fund accounts; others, called offsetting receipts, are credited to receipt accounts. The authority to spend offsetting collections is a form of budget authority.

Other Financing Sources - Inflows of resources that increase net position of a reporting entity but that are not revenues or gains. Borrowing is not included as other financing sources, since it does not increase the net resources of the reporting entities.

Proprietary Accounting - Also known as financial accounting, a process that supports accrual accounting and financial reporting that attempts to show actual financial position and results of operations by accounting for assets, liabilities, net position, revenues, and expenses.

Revenue Adjustment - A contra revenue account that is used to report reduction in revenue when realization is not probable (less likely than not). It includes returns, allowances, and price redeterminations but not credit losses (due to the inability of the debtor to pay the established or negotiated price).

Revolving Fund - A fund consisting of permanent appropriation and expenditures of collections, from both the public and other Governmental agencies and accounts, that are earmarked to finance a continuing cycle of business-type operations.

Special Fund - Federal fund accounts for receipts earmarked for specific purposes and the associated expenditure of those receipts.

Treasury Warrant - An official document that the Secretary of the Treasury issues pursuant to law and that establishes the amount of monies authorized to be withdrawn from the central accounts that Treasury maintains. Warrants for currently unavailable special and trust fund receipts are issued when requirements for their availability have been met.

Trust Funds - Accounts that are designated by law as trust funds, for receipts earmarked for specific purposes and the associated expenditure of those receipts.

Trust Revolving Funds - Accounts that record permanent appropriation and expenditure of collections used to carry out a cycle of business type operations in accordance with a statute that designates the fund as a trust fund. Examples of USDA trust revolving funds are the Working Capital Funds operated by the Office of the Chief Financial Officer and the Forest Service.